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Nicor Announces Findings of Independent Inquiry and Reports On Business and Financial Matters

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NAPERVILLE, Ill.--(BUSINESS WIRE)--Oct. 29, 2002--Nicor Inc. (NYSE:GAS - News):

- Company Committed To Improve Policies And Procedures
- Report Finds No Criminal Conduct Or Fraud
- Announces Third-Quarter Earnings, Restatements Of Prior Financials And Update On Joint Venture
- Nicor Gas To Provide Appropriate Restitution To Customers

Nicor today pledged to strengthen its policies and procedures to rectify shortcomings in the implementation of Nicor Gas' performance-based rate (PBR) plan as outlined in an independent counsel's report issued to a Special Committee appointed by Nicor's Board of Directors. Nicor also announced: preliminary third quarter earnings; that prior financials will be restated and therefore cannot be relied upon; termination of its PBR plan effective January 1, 2003; and its intention to exit from its Nicor Energy joint venture.

"After thoroughly reviewing the independent counsel's report, and on behalf of our entire senior leadership team, I apologize for the mistakes that occurred at Nicor Gas and I pledge to take whatever measures are necessary to ensure that this does not happen again," said Thomas L. Fisher, Nicor Chairman, President and CEO. "The intent of the PBR program was to align customer and shareholder interests, but clearly we failed to execute properly. We accept the findings and conclusions of this report and we will continue to cooperate fully with the ongoing Illinois Commerce Commission (ICC) review."

The report concluded that there was no evidence of criminal conduct or fraud. However, the report identified several instances in which Nicor Gas took actions that had the effect of benefiting Nicor Gas and disadvantaging customers, and other instances where Nicor Gas made inadvertent accounting errors, sometimes to the benefit of the Nicor Gas and sometimes to the benefit of customers.

The report recommended total adjustments of $15 million in favor of Nicor Gas' customers, prior to restatements for accounting errors relating to Nicor Gas' treatment of natural gas inventory as described below. All of the issues related to the restatements have not been fully resolved, but even including preliminary estimated impacts from financial restatements, the aggregate adjusted amount owed to customers is not expected to exceed $15 million, or about $7 per customer.

After all adjustments and restatements, cumulative net income for 1999 through 2002 is estimated to be $15 million to $35 million lower than previously reported. All of this is subject to ICC review and independent audit, which may result in final amounts that are materially different than these estimates.

"This report is the first step toward improving Nicor Gas' ability to better serve our customers, which will include providing all appropriate restitution to them, strengthening our policies and procedures, and implementing organizational changes," Fisher said. "The Board's appointment of an independent Special Committee clearly demonstrated that our corporate governance process produced decisive results - just as intended."

"For almost half a century, Nicor Gas' reputation for honesty, reliability and cost-effective service has been at the core of our company - and we will work diligently to restore our customers' confidence in us," Fisher said.

Background of Inquiry

On July 18, 2002, the Nicor Board of Directors appointed a Special Committee of non-management Directors to investigate Nicor Gas' natural gas purchases, transportation, and storage activities, including allegations regarding Nicor Gas' PBR plan that had been made in an anonymous fax sent to the Citizens Utility Board (CUB) and submitted to the ICC.

The PBR, which was originally approved by the ICC and became effective January 1, 2000, was designed to provide an incentive for Nicor Gas to purchase natural gas at costs below a market-based benchmark. Savings and losses relative to this benchmark are shared equally with customers.

To conduct the inquiry, the Special Committee retained Scott Lassar of the law firm of Sidley Austin Brown & Wood and the accounting firm of KPMG LLP. Lassar is the former United States Attorney for the Northern District of Illinois.

Independent Counsel's Report

After a three-month process, during which Sidley attorneys and KPMG accountants reviewed thousands of documents and interviewed numerous individuals, the results were presented to Nicor's Board of Directors on October 28, 2002.

The key findings of the independent counsel's report include:

1. Nicor Gas did not engage in any criminal or fraudulent conduct. Inadvertent accounting errors occurred, sometimes to the benefit of customers and sometimes to the benefit of Nicor Gas.
2. Certain transactions increased customer costs in the aggregate amount of approximately $15 million. Examples of errors identified in the report include a late 1999 wholesale transfer of natural gas from Nicor Gas' storage inventory which increased customers' gas costs by approximately $6.75 million. The report also found that operational transfers of natural gas between Nicor Gas' storage fields were not consistently accounted for under the PBR. If accounted for on a consistent basis, the report concluded, the most appropriate result would be a $3.5 million refund to customers. The report found additional issues totaling about $5 million related to interest costs and the purchase of weather insurance for 2001.
3. Nicor Gas did not engage in any attempt to speculate on gas prices, any improper Nicor affiliated-party transactions, or any improper hedging activities.

Restatements of Financial Statements

As a result of the independent Special Committee's review, Nicor and Nicor Gas, in consultation with their new independent auditor Deloitte & Touche, have also concluded that prior period financial statements require restatement for certain sales and purchases of natural gas inventory between Nicor Gas and independent third-parties during the period December 1999 to the present. These restatements will reflect timing changes in recognition of inventory amounts and accrued gas costs to customers. The reason for these restatements is that certain storage management transactions should have been reflected on Nicor Gas' balance sheet as natural gas inventory with a related liability. Nicor and Nicor Gas believe that they will restate prior period recorded assets and liabilities in nearly equal amounts, but the impact will likely vary from quarter to quarter.

Additionally, the calendar year PBR calculations include the cost of gas charged to customers as well as volumes withdrawn from inventory. As a consequence of changes in both of those amounts, Nicor believes that PBR results in prior periods will change and net income is required to be restated.

It will be necessary for Nicor and Nicor Gas to restate financial statements for 1999, 2000, and 2001 and for interim periods in 2002. Accordingly, financial statements previously issued for those periods should not be relied upon. The company has notified its previous independent auditor of the need for restatement.

The restatements will include the adjustments related to natural gas inventory and accrued gas costs, corrections for PBR results, and for other out-of-period corrections not related to the PBR that are more properly reflected in periods other than the ones in which they were initially reported. These restatements could be materially affected by ICC review.

Deloitte & Touche will audit all of the restated full-year financial statements and Nicor and Nicor Gas will file amended reports with the Securities and Exchange Commission (SEC) as soon as it is practical after Deloitte completes its work. Nicor Gas will also file amended reports with the ICC, as appropriate.

Preliminary Financial Impact and Withdrawal from PBR Plan

The impact of the issues identified in the independent counsel's report, along with the effect of financial restatements, is estimated to result in an aggregate reduction in Nicor and Nicor Gas net income for 1999 through 2002 of $15 million to $35 million. These amounts are not reflected in the preliminary third quarter 2002 results reported below and are subject to audit and ICC review. It is possible that the audit and ICC review will result in final numbers or results that are materially different than these estimates. Due to uncertainties surrounding the PBR, Nicor Gas has not recorded any PBR results related to the 2002 PBR plan year.

Also, in a letter dated October 28, 2002 Nicor Gas informed the ICC that it is terminating its PBR plan effective January 1, 2003. Under terms of the ICC order that established the PBR, Nicor Gas is required to notify the ICC before November 1 of its intention to discontinue the program.

Decision to Withdraw From Nicor Energy

Nicor also said it is taking steps to withdraw, as soon as it is practical, from its continued involvement in Nicor Energy, a retail energy marketing joint venture between Nicor and Dynegy Marketing and Trade. Nicor has concluded that Nicor Energy is no longer the best vehicle for its continued involvement in customer choice programs.

In the second quarter of 2002, Nicor and Dynegy commenced a review of Nicor Energy's business strategy, accounting practices, controls and financial results after discovering accounting issues at Nicor Energy. Nicor has recorded about $14 million in pre tax equity losses during 2002 related to Nicor Energy, including a third quarter adjustment of about $4 million to write off its remaining investment.

Report of Preliminary Third Quarter Results Prior to Restatement

Nicor today also reported, prior to restatement, preliminary third quarter 2002 net income, operating income and diluted earnings per share of $30 million, $53.2 million and $.68, respectively. This compares to third quarter 2001, prior to restatement, net income, operating income and diluted earnings per share of $33 million, $53.4 million and $.73, respectively.

For the nine months ended September 30, 2002, preliminary net income, operating income and diluted earnings per share, prior to restatement, were $85.8 million, $157.1 million and $1.93, respectively. This compares to net income, operating income and diluted earnings per share for the same 2001 period, prior to restatement, of $98.5 million, $174.3 million and $2.17, respectively. No adjustments relating to the independent counsel's report, restatements or ICC review are included in these preliminary amounts.

Lower results for both the quarter and nine-month period primarily result from lower operating results in the company's gas distribution segment and losses in Nicor Energy, partly offset by a positive mercury-related adjustment.

With regard to its annual outlook, assuming normal weather for the remainder of the year, the company revised its earnings per share outlook to $2.65 to $2.80, excluding any future adjustments related to the PBR, ICC review, Nicor Energy, mercury or restatements.

More details regarding 2002 preliminary third quarter and nine-month period results, prior to restatements, follow:

- Gas distribution third quarter operating income of $48.3 million was flat compared to $48.4 million a year ago. For the nine months ended September 30, 2002, operating income decreased to $144 million, from $162.1 million in 2001. Higher operating costs and the absence of 2002 PBR plan year results were the primary factors causing lower quarter and nine-month period results. Higher operating costs for both periods reflect lower pension credits, higher depreciation, health care, legal, and special investigation costs. Positive factors affecting both periods include the impact of higher power generation deliveries and margin improvements attributable to customer additions and changes in customer mix. Year-to-date results were also positively impacted by lower costs for natural gas used to operate Nicor Gas equipment and facilities. Both the quarter and year-to-date periods were favorably affected by pretax mercury-related adjustments and insurance recoveries. These positive impacts were $19.7 million and $9.2 million for the 2002 and 2001 third quarter periods, respectively, and $19.6 million and $11.4 million for the corresponding year-to-date periods.
- Containerized shipping operating income was $4.3 million in the third quarter compared to $4.2 million a year ago. For the nine months ended September 30, 2002, shipping operating income increased to $11.2 million, from $11.1 million in 2001. Improvements in both periods relating to higher volumes shipped attributable to previously announced acquisitions were partially offset by the impact of lower average prices, higher operating expenses relating to acquisition transition costs and a reduction in tourism.
- Other energy ventures operating income for the quarter increased to $2.4 million, from $1.2 million a year ago. For the nine months ended September 30, 2002, other energy ventures operating income increased to $4.7 million, from $3.1 million in 2001. Improvements in both

periods were due primarily to higher operating results from our retail energy-related products and services business.

- Other significant factors affecting earnings-per-share comparisons in both periods include lower Nicor Energy results and decreased gains on asset sales, which more than offset positive earnings-per-share contributions from lower net interest expense and the company's common stock repurchase program.

The information above is subject to material change as the companies' independent auditor, Deloitte & Touche, completes its review of 2002 and audits of prior periods, and as a result the ICC review of the PBR. The companies cannot state with certainty when the restatements, independent audits or ICC review will be complete.

Nicor and Nicor Gas also announced that $334 million of short term lines of credit with banks have been put in place to replace those that expired on September 30, 2002 and the companies expect to add an additional $75 million in the next few weeks. These lines of credit serve as back up for issuance of commercial paper used for meeting gas supply purchases and working capital needs.

Nicor Inc. (NYSE: GAS - News) is a holding company. Its principal businesses are Nicor Gas, one of the nation's largest natural gas distribution companies, and Tropical Shipping, a containerized shipping business serving the Caribbean region. Nicor also owns several energy-related businesses and has an equity interest in several energy-related businesses. For more information, visit the Nicor website at www.nicor.com.

Caution Concerning Forward-Looking Statements

This document includes certain forward-looking statements about the earnings expectations of Nicor Inc. and its subsidiaries and about the expected results of financial restatements and other adjustments. Although Nicor believes these statements are based on reasonable assumptions, actual results may vary materially from stated expectations. Actual results may differ materially from those indicated in the company's forward-looking statements due to the direct or indirect effects of the results of previously disclosed accounting reviews and the resolution of those issues, including the direct or indirect effects of a re-audit and restatement of financial statements and ICC review. Other factors that could cause materially different results include, but are not limited to the performance-based rate plan review, weather conditions, natural gas prices, interest rates, pending financings, credit conditions, economic and market conditions, energy conservation, legislative and regulatory actions, results, or adjustments, additional adjustments related to Nicor's retail energy marketing joint venture, asset sales and any future mercury-related charges or credits. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this release. Nicor undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this release.

Nicor Inc.

PRELIMINARY FINANCIAL HIGHLIGHTS

Unaudited and subject to restatement (millions, except per share data)

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2002	2001	2002	2001
Operating revenues				
Gas distribution	$ 172.6	$ 156.3	$ 969.4	$1,776.4
Shipping	66.6	52.7	191.6	165.7
Other energy ventures	11.2	7.9	32.8	20.7
Corporate and eliminations	(.6)	-	(6.2)	-
	$ 249.8	$ 216.9	$ 1,187.6	$1,962.8
Operating income (loss)				
Gas distribution	$ 48.3	$ 48.4	$ 144.0	$ 162.1
Shipping	4.3	4.2	11.2	11.1

Other energy ventures	2.4	1.2	4.7	3.1
Corporate and eliminations	(1.8)	(.4)	(2.8)	(2.0)
	$ 53.2	$ 53.4	$ 157.1	$ 174.3

Other income (expense), net				
Interest income	$ .4	$ 1.9	$ 1.7	$ 6.1
Asset sales	-	3.9	4.5	4.6
Other	.8	.9	.7	1.5
	$ 1.2	$ 6.7	$ 6.9	$ 12.2
Net income	$ 30.0	$ 33.0	$ 85.8	$ 98.5
Earnings applicable to common stock	$ 29.9	$ 32.9	$ 85.6	$ 98.3
Average shares of common stock outstanding				
Basic	44.0	45.0	44.2	45.2
Diluted	44.1	45.1	44.3	45.4
Earnings per average share of common stock				
Basic	$ .68	$ .73	$ 1.94	$ 2.17
Diluted	.68	.73	1.93	2.17

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PRELIMINARY CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited and subject to restatement (millions, except per share data)

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2002	2001	2002	2001
Operating revenues	$ 249.8	$ 216.9	$ 1,187.6	$1,962.8
Operating expenses				
Cost of gas	66.8	51.5	533.3	1,306.5
Operating and maintenance	113.7	89.8	326.7	281.6
Depreciation	21.4	19.6	109.2	104.0
Taxes, other than income taxes	14.4	11.8	80.9	107.8
Other	(19.7)	(9.2)	(19.6)	(11.4)
	196.6	163.5	1,030.5	1,788.5
Operating income	53.2	53.4	157.1	174.3
Equity investment income (loss)	(3.1)	1.2	(12.5)	-

Other income (expense), net	1.2	6.7	6.9	12.2
Interest expense, net of amounts capitalized	9.1	10.4	27.4	36.6
Income before income taxes	42.2	50.9	124.1	149.9
Income tax expense	12.2	17.9	38.3	51.4
Net income	30.0	33.0	85.8	98.5
Dividends on preferred stock	.1	.1	.2	.2
Earnings applicable to common stock	$ 29.9	$ 32.9	$ 85.6	$ 98.3
Average shares of common stock outstanding				
Basic	44.0	45.0	44.2	45.2
Diluted	44.1	45.1	44.3	45.4
Earnings per average share of common stock				
Basic	$ .68	$ .73	$ 1.94	$ 2.17
Diluted	.68	.73	1.93	2.17

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